MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BAW4634 – BUSINESS PLANNING TAXATION

(All Sections / Groups)

11 FEBRUARY 2023
2.30 p.m. – 5.30 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 14 pages excluding the cover page with **THREE** (3) Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.
4. All questions must be answered in English.

All questions are based on the Income Tax Act 1967 (as amended), Real Property Gains Tax Act 1976 (as amended), Sales & Service Tax Act 2018 and Stamp Act 1949 (as amended) and legislations passed up to the year 2021.

QUESTION 1

Assume it is 15 January 2023. You work as a tax adviser for a firm of ICAEW Chartered Accountants. Sunshine Sdn. Bhd. (Sunshine) is a client of your firm. Your manager is preparing for a meeting with the Sunshine's board of directors and has asked for your assistance. Your manager has provided you with some background information and the related issues of Sunshine:

Background information

Sunshine is a resident incorporated company with a paid capital of RM2.6 million. Sunshine manufactures and markets industrial flooring and prepares its financial statements to 31 December annually. Its office and factory are located in Klang, Selangor.

Issue 1: Adjusted business income for the year of assessment (YA) 2022.

The finance director of Sunshine is on medical leave for two months. Prior to his leave of absence, he and his team has prepared a draft of Sunshine's tax computation for YA 2022. The adjusted business income is as follows:

	RM
Profit before tax	880,500
Add: Non-allowable expenses	210,000
Adjusted business income	1,090,500

The adjusted business income above excludes any adjustment for tax purposes with regard to the following pending matters:

1. Contribution to an approved institution
In October 2022, Sunshine made a cash contribution to an approved institution for RM65,000.

2. Cancellation of contract
In 2020, Sunshine appointed Golden Flooring Sdn. Bhd. as a distributor of its products to East Malaysia. They entered into an agreement for a term of 4 years that stated the profits sharing, pricing and operations. Sunshine has similar contracts with a number of other distributors.

In 2021, Golden Flooring Sdn. Bhd. did not meet the agreement conditions, hence both parties decided to terminate the agreement. Golden Flooring Sdn. Bhd. was required to pay a compensation of RM186,000 to Sunshine in October 2022.

3. Bad debts
Sunshine made a credit sale of RM110,000 to its customer, MAMA Consultant (MAMA) in 2021. As at November 2022, MAMA failed to pay the balance of RM50,000 after the court has declared MAMA became bankrupt. Thus, Sunshine decided to write off this balance.

Continued...

4. Research and development (R&D)

Sunshine incurred R&D expenditure in December 2022 amounting to RM122,000. Sunshine fulfilled conditions for the purpose of deduction approved by the Ministry of Finance.

5. Capital allowances

In YA 2022, Sunshine is eligible to claim capital allowances and industrial building allowance for its existing plant & machinery and factory amounting to RM356,000 and RM210,200 respectively.

Issue 2: Acquiring assets

i. Sunshine is planning to purchase two heavy machines in 2023 to speed up production. The estimated total cost for the two machines is RM800,000 and can be financed by a bank loan. However, the bank offered Sunshine the opportunity to acquire the machines either through a hire purchase agreement or lease agreement and details are as follows:

	Hire purchase
Deposit	RM80,000
Total instalments	60 months
Interest rate per annum	4%
Monthly instalment without interest	RM12,000
First instalment paid	July 2023

	Leasing
Interest rate per annum	4.50%
Lease duration	5 years
First lease rental paid	July 2023

Sunshine is not sure whether to opt for a hire purchase or lease agreement.

ii. Sunshine now rents a warehouse in Klang and plans to buy its own warehouse in 2024. Sunshine shortlisted two warehouses that have offered affordable prices but are located in different locations, first is in Rawang at the price of RM320,000 and another is in Klang at RM400,000 (located just beside the existing factory). Sunshine is yet to decide which warehouse to buy that give a tax advantage.

Issue 3: Disposal of quoted shares

On 8 January 2022, Sunshine sold its quoted shares and made a gain of RM250,000. The shares were acquired in 2019 using the company's surplus. The proceeds from the disposal were utilized to acquire other quoted shares. Sunshine has never previously disposed of any shares.

Required:

Based on the above, provide:

Continued...

(a) An explanation of the tax implications for Sunshine of each of the pending matters stated in issue 1, item 1-5.

(10 marks)

(b) A calculation of income tax payable for Sunshine for YA2022 after considering pending matters stated in issue 1, item 1-5. Assume the tax rate is 24%

(8 marks)

(c) An evaluation of the tax implications for the purchase of heavy machines under hire purchase and leasing **(as stated in issue 2i)** on the Sunshine's statutory income in YA2023. Assume the estimated adjusted business income for YA2023 is RM1,245,025 and total current year capital allowance for YA2023 remains unchanged **(refer to issue 1, item 5)**. Provide calculation to support your evaluation. Round-up all figure(s).

(7 marks)

(d) An evaluation of warehouse **(stated in issue 2 ii)** that could give tax advantage to Sunshine for YA 2024.

(5 marks)

(e) An argument for treating the gain from the disposal of shares **(as stated in issue 3)** as a capital gain or revenue gain.

(5 marks)

Note: You may apply tax rules in YA2021 while answering Question 1.

[Total : 35 marks]

QUESTION 2

You are an ICAEW Chartered Accountant employed by E&O Consulting in Malaysia as a tax advisor. Philip is a client of the German division of your firm. Philip moved from Germany to Malaysia on 4 July 2020. He will spend his annual vacations going back to Germany. Additionally, he is in charge of managing a few of his employer's subsidiaries in the Asia-Pacific region. Philip travelled to Malaysia with his wife and their adopted daughter.

Your manager has forwarded you an email from Philip and the extract from the email as follows:

Subject: Tax planning

Good day to you!

My name is Philip. I work as a consultant in information technology (IT) for a company located in Berlin, Germany. I have relocated to Malaysia from Germany.

Continued...

I was in Malaysia since 4 July 2020. On 1 September 2021, I left Malaysia to visit my mother in Germany who contracted Covid-19, suffered severe illness and died. I was away in Germany till 30 September 2021. I came back to Malaysia on 1 October 2021.

I plan to go to Singapore for an official visit. I will leave Malaysia on 11 February 2022 and return to Malaysia on 26 February 2022. I will complete my term of employment in June 2022 and leave Malaysia on 25 June 2022.

I heard that being a Malaysian tax resident will enjoy certain tax benefits which are not available to a non-resident. I am unsure whether I qualify as a Malaysian tax resident for the year of assessment 2020, 2021 and 2022 .

My wife, Jamie is a Malaysian. She stayed with me in Germany since we got married in 2006. She came back with me to Malaysia in July 2020. Her brother, Peter, has passed away on 31 August 2021 due to kidney failure at Serdang Hospital, Selangor. Peter is an entrepreneur since he graduated from University of Malaya in 2003 and never left Malaysia due to his busy working schedule. Peter is a widower and has a daughter, aged 16 years old , currently studying in a local secondary school. According to Peter's will, Jamie has been appointed as the executor of the estate. However, she is unsure of her responsibility of being an executor as well as the way of determining the income tax liability of her late brother's estate. Jamie is being paid RM500 per month for her service as the executor of the estate. Sara, the daughter of Peter, is to receive an annuity of RM24,000 per annum, but instead, she was only paid RM18,000 during the year of assessment 2021.

I have attached all information with regard to my remuneration package **(Exhibit 1)** and the financial information about my late brother-in-law's estate for the year 2021 for your perusal **(Exhibit 2).**

Since I am a foreigner and unsure about Malaysian tax law, I appreciate you could assist me to determine the following matters:

-my tax resident status for the year of assessment 2020, 2021 and 2022
-the tax benefits of being a Malaysian tax resident
-my tax payable for the year of 2021
-the responsibilities of an executor
-the chargeable income of my late brother-in-law's estate and Jamie (the executor).

Continued...

Exhibit 1

The details of my remuneration package for the year 2021 are as follows:

- A monthly gross salary of RM 25,000.
- A monthly parking allowance of RM50.
- Medical benefit of RM10,000 per year.
- Free Iphone costing RM3,500. The phone is registered under my name.
- Entertainment allowance of RM650 per month. 80% of the entertainment allowance was incurred for official purposes.
- A total annual utility bills amounting to RM4,000 was borne by the employer.

Other information pertaining to my expenses are as follows:

- I contribute 11% of my monthly gross salary to the Employees' Provident Fund whereas my employer contribution is 14%.
- My wife, Jamie is a full time housewife and does not have any income. We have an 11 years old adopted daughter.
- My father-in-law was diagnosed as a diabetic patient in September 2021. The medical costs amounting to RM30,000 consisting medications and normal check-ups at a private hospital in Malaysia were borne by me.
- I paid life and medical insurance premiums amounting to RM6,500 and RM3,500, respectively, for my life and medical insurance policies .
- I spent RM250 on sports equipment, RM500 on printed newspapers, and RM2,500 on broadband subscription.

Exhibit 2

The details of Peter's financial information for the year 2021 are as follows:

	RM
Sole proprietorship business (derived from Malaysia):	
Statutory income	29,000
Unabsorbed business loss brought forward	(8,000)
Partnership business (derived from Malaysia):	
Adjusted loss	(9,000)
Capital allowances	11,000
Balancing charge	19,000
Other income:	
Dividend (net of tax of 24%)- credited on 1 October 2021	36,500

Continued...

Interest income:	
Interest on fixed deposit placement with local bank – credited on 15 March 2021	10,000
Adjusted rental income:	
Received from apartments in Klang from January 2021 to December 2021	24,000

Required:

(a) Determine Philip's residence status for the year of assessment (YA) 2020, 2021 to 2022. (9 marks)

(b) Explain to Philip the **Three (3)** advantages of being a tax resident in Malaysia. (3 marks)

(c) Compute the income tax payable by Philip for the year of assessment 2021. Round-up all figures. (10 marks)

(d) Explain to Philip the **Three (3)** responsibilities of being an executor of the estate. (3 marks)

(e) Compute the chargeable income of Peter (deceased) and the executor for the year of assessment 2021. Show all relevant workings. Round-up all figures. Indicate 'nil' or 'exempt' when necessary. (10 marks)

[Total: 35 marks]

QUESTION 3

You are an ICAEW Chartered Accountant, working as a tax adviser. Alan, who is a new client of your firm, owns Kim Hock Kopitiam, a sole-proprietor business. He is currently running the business with his family members. Alan is a Malaysian tax resident. Recently, you have received Alan's email as follows:

Continued...

Extract from Alan's email:

Subject: Advice

Hi!

Kim Hock Kopitiam is a traditional coffee shop that has been operating for 50 years since my father's time. I took over the business after the demise of my father in 2015. I continue to run the business with my family members. The business always made up its accounts to 31 December annually. The coffee shop has been doing well until the Malaysian Government implemented Movement Control Order (MCO) to curb the spread of the Covid-19 pandemic in March 2020.

Since then, the coffee shop has operated at a loss. After discussing with my family members, I plan to convert my coffee shop to a tea house-Alan's Tea House, which serves traditional Chinese tea, cakes, pastries and dumplings starting from 1 January next year. I have two options as follows:

Option 1: Cease Kim Hock Kopitiam operation and start Alan's Tea House.

Option 2: Continue Kim Hock Kopitiam operation and at the same time start Alan's Tea House to cover up the coffee shop losses.

I am a trained Chinese cakes and pastries baker and have working experience in 5 star hotel when I'm in my 20's. I expect that the new tea house business will start to generate profit in the first year of its operation in view of the change of dining behaviour among the locals.

I need your advice about the tax effects of the two options stated above so that I can make a proper decision about my business. I need your input as to which of these options will be the most tax efficient. Besides, I am undecided whether to use a company or to carry on my business as a sole proprietor.

I have attached the projected financial information of Kim Hock Kopitiam in **Exhibit 1** and Alan's Tea House in **Exhibit 2** for your reference.

Continued...

Exhibit 1:

Kim Hock Kopitiam income and expenses projection for next year

	RM	RM
Sales		120,000
Less: Cost of sales		96,000
Gross profit		24,000
Less: Expenses		
*Salary and wages	72,000	
Utility	9,600	
Depreciation	2,000	
Flood and fire insurance	1,500	85,100
Net loss before tax		(61,100)

Note1

*: The break down of the projected salary and wages for next year is as follows:

	RM
Salary to Alan	18,000
Salary to Alan's wife	12,000
Salary to Alan's brother	30,000
Salary to Alan's daughter	12,000

Kim Hock Kopitiam has an unabsorbed business loss b/f of RM60,000 and an unabsorbed capital allowance b/f of RM4,000.

Other information: Kim Hock Kopitiam is eligible to claim capital allowances for the following existing assets if Alan decides to continue the business. Alan plans to dispose of those assets should Alan cease the business with zero resale value:

	Qualifying expenditure (incurred in YA2018)
	RM
General plant and machineries	15,000

Exhibit 2:

Alan's Tea House income and expenses projection for next year

	RM
Estimated net profit before taxation	295,000
**Estimated operating expenses	180,000

Continued...

Note 2

**: Included in the estimated operating expenses are i) depreciation of RM3,500 and ii) salary and wages paid to Alan and his family members as follows:

	RM
Salary to Alan	24,000
Salary to Alan's wife	24,000
Salary to Alan's brother	30,000
Salary to Alan's daughter	12,000

The balance of the estimated operating expenses are revenue expenses incurred for business purposes.

Other information: Alan will purchase the following assets to be used in his new tea house business next year.

	RM
General plant and machineries	45,000
Van	100,000

Other information: Alan will continue to use the business premise of Kim Hock Kopitiam for his new tea house business should he cease the operation of his existing coffee shop business. He is expected to incur RM200,000 in renovation. The market value of the existing business premise is estimated to be RM2 million.

Required:

(a) Advise Alan on the significance of the commencement date of business. (3 marks)

(b) Advice Alan on the conditions to claim capital allowance on assets acquisition. (3 marks)

(c) Compute the chargeable income for Alan's business for Option 1 and Option 2 for next year. You may apply tax rules in YA2021 while answering the question. Show all workings. (15 marks)

(d) By referring to the results obtained in requirement (c), advise Alan as to which option is more beneficial to him from the income tax perspective. (6 marks)

(e) Explain to Alan the at least 3 differences in carrying on the business in the form of sole proprietor and company. (3 marks)

[Total: 30 marks]

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APPENDIX

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

- **Income tax rates for resident individuals for the Year of Assessment (YA) 2021.**

Category	Chargeable Income	Calculations (RM)	Rate %	Tax (RM)
A	0 - 5,000	On the First 5,000	0	0
B	5,001 - 20,000	On the First 5,000		0
		Next 15,000	1	150
C	20,001 - 35,000	On the First 20,000		150
		Next 15,000	3	450
D	35,001 - 50,000	On the First 35,000		600
		Next 15,000	8	1,200
E	50,001 - 70,000	On the First 50,000		1,800
		Next 20,000	13	2,600
F	70,001 - 100,000	On the First 70,000		4,400
		Next 30,000	21	6,300
G	100,001 - 250,000	On the First 100,000		10,700
		Next 150,000	24	36,000
H	250,001 - 400,000	On the First 250,000		46,700
		Next 150,000	24.5	36,750
I	400,001 - 600,000	On the First 400,000		83,450
		Next 200,000	25	50,000
J	600,001 - 1,000,000	On the First 600,000		133,450
		Next 400,000	26	104,000
K	1,000,001 - 2,000,000	On the First 1,000,000		237,450
		Next 1,000,000	28	280,000
L	Exceeding 2,000,000	On the First 2,000,000		517,450
		Next ringgit	30	.....

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- **Reliefs for the Year of Assessment (YA) 2021.**

	RM
Personal relief	9,000
Disabled taxpayer (additional relief)	6,000
Spouse relief	4,000
Disabled spouse relief (additional relief)	5,000
Medical expenses for parents	8,000
1. Medical expenses for serious diseases 2. Vaccination expenses for self, spouse and child. (Restricted to RM1,000) 3. Medical expenses for fertility treatment for self or spouse 4. (i) Complete medical examination for self, spouse, child as defined by the Malaysian Medical Council (MMC). (ii) COVID-19 detection test including purchase of self-detection test kit for self, spouse, child. (Restricted to RM1,000)	8,000
Basic supporting equipment for disabled taxpayer, spouse, children, or parents	6,000
Child relief (below 18 years old) - Each - Disabled	 2,000 6,000
Child relief (over 18 years old and studying in higher learning institutions) - Each - Disabled	 8,000 14,000
Amount deposited into SSPN for child	8,000
Life insurance premium	3,000
EPF contributions	4,000
Premium on deferred annuity contract and private retirement scheme	3,000
Premium on medical/education insurance	3,000
Employee's contribution to SOCSO scheme	250
Education fees paid by taxpayer for his own self-improvement	7,000
Lifestyle expenses	2,500
Additional lifestyle- purchase of personal computer, smartphone or tablet for self, spouse or child	2,500
Additional lifestyle relief related to sports activity	500
Breastfeeding equipment	1,000
Fees paid to childcare centre and kindergarten for a child aged 6 years and below	3,000
Payment for accommodation at premises registered with the Commissioner of Tourism and entrance fee to a tourist attraction	1,000

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- **Rebates**

Rebates	RM
Chargeable income <= RM35,000	
Individual	400
Additional relief when wife/husband relief is claimed	400

- **Benefits-in-kind (BIK) scale rates as per Inland Revenue Board (IRB) guidelines**

Cost of car when new	Annual prescribed benefit of motorcar	Annual prescribed benefit of petrol
RM	RM	RM
Up to 50,000	1,200	600
50,001 - 75,000	2,400	900
75,001 - 100,000	3,600	1,200
100,001 - 150,000	5,000	1,500
150,001 - 200,000	7,000	1,800
200,001 - 250,000	9,000	2,100
250,001 - 350,000	15,000	2,400
350,001 - 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equivalent to half of the above rates is taken if the car provided is more than five years old.

- **Prescribed value of household furnishings, apparatus and appliances**

Category	Type of Benefit	Annual Prescribed value of BIK provided RM
1	Semi-furnished with furniture in the lounge, dining room or bedroom.	840
2	Semi-furnished with furniture as in Category 1 and one or two of the following: • air-conditioners • curtains and alike • carpets	1,680
3	Fully furnished with benefits as in Category 1 and 2 plus one or more of kitchen equipment, crockery, utensils and appliances.	3,360

Continued...

Other benefits	RM per month
Household servant	400
Gardener	300
Driver	600

- **Rates of Capital Allowances**

	Motor Vehicles/ Heavy Machinery	Plant & Machinery (general)	Office Equipment, Furniture & Fittings, Others	Industrial Building
Initial allowance	20%	20%	20%	10%
Annual allowance	20%	14%	10%	3%

- **Real property gains tax**

DISPOSAL PERIOD	TAX RATE FOR YEAR OF ASSESSMENT 2021		
	PART I Other than Part II and Part III [eg: individual, partnership, executor of the estate of a deceased person who is a citizen or a permanent resident]	PART II Company incorporated in Malaysia or trustee of a trust	PART III Individual who is not a citizen and not a permanent resident, or an executor of the estate of a deceased person who is not citizen and not a permanent resident, or a company not incorporated in Malaysia.
Disposal within 3 years after the date of acquisition	30%	30%	30%
Disposal in the 4th year after the date of acquisition	20%	20%	30%
Disposal in the 5th year after the date of acquisition	15%	15%	30%
Disposal in the 6th year after the date of acquisition	5%	10%	10%

Continued...

- **Sales and service tax**

	Rate %
Sales tax	10
Service tax	6

- **Stamp duty**

Rates of duty under the First Schedule
Conveyance, assignment, transfer or absolute bill of sale

	Rate %
Sale of property - from 1.7.2019 onwards	
First RM100,000	1
RM100,001 to RM500,000	2
RM500,001 to RM1,000,000	3
>RM1,000,000	4
House loan agreement	0.5
Transfer of shares or marketable securities	0.3
Transfer of shares or marketable securities by using contract note	0.1

End of paper.